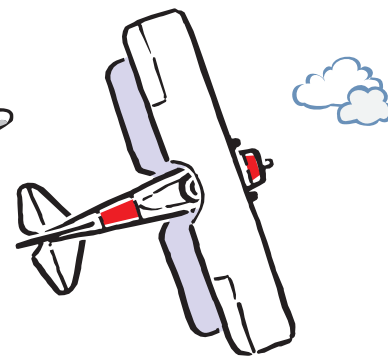


SCHOOL DISTRICT FLYER



Issue 37

A Newsletter of the Office of the Auditor General

June 2007

REMINDERS

Revised USFR Chart of Accounts Effective July 2007

The revised Uniform System of Financial Records (USFR) Chart of Accounts issued in June 2006 is effective beginning July 1, 2007. The Chart, as well as the memorandum and summary of changes outlining the revisions, are available on our Web site at www.azauditor.gov/manuals_schooldistrict.htm.

Advice of Encumbrance

Districts that have liabilities payable in levy funds at June 30 must prepare an Advice of Encumbrance and submit it to their county school superintendent by July 18. USFR Memorandum No. 188 provides the Advice of Encumbrance districts should use for fiscal year 2007. Districts participating in the Accounting Responsibility Program are exempt.

COMMON CLASSIFICATION ERRORS

Districts should ensure that transactions are classified in accordance with the USFR Chart of Accounts so that data reported to the public and oversight agencies is accurate and comparable among districts.



However, a common deficiency cited by school districts' independent auditors in the USFR Compliance Questionnaire is that districts have errors in recording transactions in accordance with the USFR Chart

of Accounts. We have also noted coding errors in our performance audits of school districts.

Some common errors noted in function coding are:

Description	Incorrect Function Code	Correct Function Code
Speech and Physical therapy	1000	2100
Teacher training/development costs	1000 or 2100	2200
Student transportation for fieldtrips and other travel	1000	2700
Auto/bus insurance	2100	2600
Cell phone charges	function served	2600 or if supporting instruction 1000 or 2230
Textbooks	various	1000
School resource officers	various	2600

We have also noted instances in which an employee serves multiple functions, but the employee's wages were coded to only one of those functions. If



an employee has several job responsibilities, the employee's wages should be allocated according to the amount of time spent performing each responsibility.

For example, if a school secretary spends 75% of the time assisting the principal and 25% of the time recording and reporting student attendance, the school secretary's wages should be allocated 75% to function code 2400—Support Services—School Administration and 25% to function code 2100—Support Services—Students.

Finally, remember that required account code numbers are shown in bold in the Chart, and districts must classify transactions to that level.

NEW FINANCIAL REPORTING STANDARDS FOR OTHER POSTEMPLOYMENT BENEFITS - PART II



Issue 36 of the School District Flyer defined and discussed other postemployment benefits (OPEB). Once a district has determined that it offers OPEB, it must next consider whether or not OPEB is offered through a formal trust as defined by

Governmental Accounting Standards Board (GASB) Statement No. 43 to determine whether GASB Statement No. 43 or No. 45 applies to that plan. For purposes of GASB Statement No. 43, trusts are OPEB plans through which assets are accumulated and benefits are paid as they come due in accordance with an agreement between the district and plan members and their beneficiaries, and in which:

- Employer contributions to the plan are irrevocable.
- Plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the plan.
- Plan assets are legally protected from creditors of the district or the plan administrator.

Districts that have an OPEB plan that meets the definition of a formal trust must comply with GASB Statement No. 43 for that plan. For plans that do not meet the definition of a formal trust, districts must comply with GASB Statement No. 45.



Future issues of the School District Flyer, as well as the School District Reporting Guidelines issued by our Office for the years ending June 30, 2007 and 2008, will provide additional information on accounting and financial reporting for OPEB plans.

In order for us to provide you with the most relevant guidance on GASB Statement Nos. 43 and 45 in future issues, **please e-mail us at asd@azauditor.gov** and tell us what OPEB your district offers and whether benefits are provided through a formal trust, multiple-employer plan, or a sole-employer plan.

CREDIT CARDS/PROCUREMENT CARDS (P-CARDS)

Because of the relatively high risk associated with transactions involving credit cards and P-cards, school districts should establish and maintain effective internal controls to safeguard and restrict card usage to district business. An employee in the district office should monitor and reconcile the billing statements to supporting documents, verifying that the purchase was for a district purpose and reporting any suspicious charges to a supervisor for further investigation.

QUESTIONS & ANSWERS



Question: Is a district required to perform due diligence related to purchases made through a cooperative?

Answer: Yes. School districts are responsible for ensuring that purchases, whether done independently or through a cooperative purchasing agreement, are done in accordance with School District Procurement Rules. The appropriate amount and complexity of due diligence a district performs will vary based on the procuring entity with which the district is participating. Arizona Revised Statutes §15-213(F) requires school districts and school purchasing cooperatives, in connection with any audit conducted by a certified public accountant, to have a systematic review of purchasing practices. Our Office has prescribed guidelines for performing these reviews as part of the USFR Compliance Questionnaire (for school districts) and the Procurement Compliance Questionnaire (for cooperatives). A cooperative or lead district that has had such a review within the past year may not warrant the same amount or complexity of due diligence as an entity that has not undergone such a review. Further, an entity that had no findings as a result of its review may need little or no additional due diligence beyond obtaining the results of the review. However, an entity that had significant findings would require a greater amount and complexity of due diligence. Districts should also consider any other information available on the entity's procurement practices.

Also, it is not necessary for districts to perform due diligence for every contract procured through cooperative purchasing. It may be adequate to perform due diligence on a sample of contracts procured by a particular cooperative or lead district if that sample provides reasonable assurance that the entity's procurement practices comply with the School District Procurement Rules. To perform due diligence, districts may want to consider using the procurement questions in the USFR compliance questionnaire as a guide when reviewing cooperative purchases.

School districts must use their judgment in determining the appropriate amount and complexity of due diligence required for each procuring entity with which they participate. For audit purposes, districts should retain documentation of the due diligence performed and its results.